Economic Council of Canada

Annual Report
1985-86

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Economic Council of Canada
Conseil économique du Canada

Chairman's Office
Cabinet du président

June 30, 1986

The Right Honourable
M. Brian Mulroney, P.C., M.P.
Prime Minister of Canada
Parliament Buildings
Ottawa, Canada

Sir:

I am pleased to present the annual statement of the activities of the Economic Council of Canada for the fiscal year ending March 31, 1986, as required by the Economic Council of Canada Act.

Yours sincerely,

Judith Maxwell

Judith Maxwell
Chairman

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A message from the Chairman

The global economy is undergoing a transformation that will profoundly affect the environment for decision making in Canada's public and private sectors. Three changes are fundamental: the decline in the rate of inflation; the globalization of economic activity; and the intensification of competition.

Disinflation

The trend in prices has shifted dramatically in recent years. Inflation in the OECD countries dropped from a high of 13 per cent in 1980 to 4.5 per cent in 1985. The prices of oil, minerals, agricultural products, and other commodities have actually declined. Most others have stabilized.

There is every sign that price increases in the industrialized world will continue to be moderate for at least a few years. Excess supply in the resource industries, investment in new technologies, and new attitudes in collective bargaining will all work in favour of low inflation.

The new trend in prices should help prolong the global economic recovery. Lower inflation opens the doors for a reduction in interest rates and for increases in spending and investment. Under those conditions, Canada looks forward to a relatively long period of healthy growth.

At the same time, the realignment of prices is creating major disturbances in many sectors and regions of the world. Resource industries are struggling. Oil-exporting nations are losing revenue that is needed to pay interest on their foreign debt. And financial institutions are forced to re-evaluate their portfolios, as the earnings and assets of some of their major clients are drawn down. In Canada, lower oil prices are causing severe imbalances in the regional patterns of growth: the prospects for investment are very favourable in Ontario but less so in Alberta and Saskatchewan, where resources represent a larger part of total economic activity.

The situation calls for careful management on the part of both government and industry in order to ensure that the problems created by price fluctuations in the resource industries do not wipe out the benefits of lower inflation for the economy as a whole.

Globalization

More and more businesses are searching around the world for the best place to buy parts, manufacture products, or borrow funds. The trend is altering the patterns of trade and increasing the degree of interdependence among the economies of the industrialized and developing worlds.

As a consequence, there is growing pressure on the nations of the world to harmonize their monetary, fiscal, and structural policies in order to avoid serious disruptions in their trade and financial flows. Progress in that direction is sometimes slow. But there were encouraging signs in 1985, including steps by the G-5 countries (United States, Japan, United Kingdom, France, and West Germany) to achieve more balanced economic growth and to help lower the value of the U.S. dollar. In the months and years ahead, industrialized and developing countries will need to work in concert to improve the global prospects for trade and to develop a realistic solution to the international debt crisis.

From time to time, the trend towards global economic integration suffers a setback: tariffs are imposed by one country; so-called "voluntary import restraints" are demanded by another. But that is the exception rather than the rule. Advances in technology, communications, and transportation, together with the relentless pressure put on the economies of the globe to exploit new sources of growth, ensure that the trend is irresistible and inevitable. Barring exceptional circumstances, a nation cannot shield itself from the outside world without the risk of seriously penalizing its economic potential.

Competition

Enhanced ties among the economies of the world are only one of the factors contributing to more intense competition in international and domestic markets. There are at least three others.

First, technological change is making it harder for producers to preserve and enhance their market shares. Not only is the pace of technological innovation accelerating, but technical know-how is spreading more rapidly to producers around the world. Hence there is constant pressure on producers to develop new products and ideas, to cut costs, and to raise productivity. Businesses that fail to do so inevitably end up struggling for survival.

Second, governments worldwide are stimulating competition through institutional changes in a range of key industries. Steps include deregu-

lation and the privatization of government-owned enterprises. As change takes place in one country, there are spillover effects in others. For instance, U.S. policy towards deregulation of airlines is having considerable impact on the Canadian market. Similarly, the decision by the United Kingdom to privatize British Telecom is affecting the communications industry on a global scale.

Finally, structural shifts in supply and demand are breaking up monopolies, cartels, and commodity agreements. The most vivid example is OPEC's loss of power in the international oil market. Oil is now being traded on competitive terms. Supply and demand are dictating prices – not OPEC, or the oil industry.

How is Canada reacting to these changes in the global marketplace? Better than most people would give it credit for, although a lot remains to be done.

The Private Sector Response

Canada's private sector is taking a more positive attitude towards its new environment than we could have anticipated only a few years ago.

Most business groups are in favour of enhancing trade ties with the United States and other nations. The Canadian Chamber of Commerce, the Business Council on National Issues, and the Canadian Manufacturers' Association are all encouraging steps in that direction. That is quite a change from some years ago, when calls for freer trade with the United States raised a great deal of suspicion among the business community.

More importantly, the private sector is starting to gear up for the new competition. Investments are being undertaken to rationalize operations and improve productivity. This is particularly evident in such sectors as metal mining, where it has become imperative to lower break-even costs in the face of tumbling prices and enhanced competition.

Canadian industry is also specializing. Evidence of this shows up in the patterns of trade. In 1970, Canada's exports and imports were equivalent to about 20 per cent and 16 per cent, respectively, of the country's GNP. In 1985, those proportions were 26 per cent and 22 per cent. Moreover, recent research shows a significant rise in intra-industry trade – the buying and selling of goods and services among firms in the same industry. That is a sign that individual firms are specializing in a narrower range of products to develop and preserve their competitive edge.

As change takes place, most firms adjust their operations. Some do have to close shop, but they are replaced by new firms that tend to adopt new ideas and new technologies rapidly. While adjustment is sometimes difficult, the net impact on output and employment is positive. For every worker displaced by structural change and technological adaptation in the 1970s, four found jobs as a result of growth in income, consumption, and investment.

Canadian workers are also demonstrating a great deal of mobility and flexibility as they adjust to new economic conditions.

Few Canadians realize how much change goes on in the course of one year. One measure of the scope of adaptation is the movement of people among provinces. Every year, about 400,000 people in Canada – or 1.5 per cent of the population – migrate from one province to another, largely in response to regional differences in the patterns of economic growth. There is also a good deal of worker mobility among industries and firms. Training programs, together with greater portability of pension benefits, should further stimulate such movements and lead to a better matching of jobs and skills.

The new attitudes of business and labour are showing up in the different approaches they are adopting in the organization of the workplace. There are many successful examples of workers and managers getting together to implement new technology, while enhancing the human side of the enterprise. Participative management and profit sharing are also more prevalent. Moreover, wage settlements are in line with the current low rate of inflation. In 1985, the average annual increase in major settlements was under 4 per cent.

There is still a good deal of apprehension among many firms and workers vis-à-vis technology and trade, and their impact on domestic markets. Those concerns are not unfounded. But the evidence suggests that change is both necessary and inevitable. Our concern should be with minimizing the cost of adjustment and ensuring that it is distributed fairly among individuals and groups. Indeed, that is one of the guiding themes of the research programs being undertaken by the Economic Council of Canada.

Members of the Economic Council of Canada

Judith Maxwell
Chairman

Peter M. Cornell
Director

Patrick Robert
Director

Miller H. Ayre
Ayre's Limited
St. John's

Philip C. Barter
Price Waterhouse and Co.
Vancouver

Roger O. Beauchemin
Beauchemin-Beaton-Lapointe
Montreal

Diane Bellemare
Department of Economics
University of Quebec at Montreal
Montreal

Jalynn Bennett
The Manufacturers Life Insurance Company
Toronto

Martin I. Chernin
Pearl Realty Company Limited
Sydney

Dian Cohen
Cohen Couture Associates
Montreal

James R. Coombs
SaskTel
Regina

Margaret Cornish-Kehoe
The Bank of Nova Scotia
Toronto

Pierre Fortin
Department of Economics
Laval University
Quebec City

Yves Guérard
Sobeco Inc.
Montreal

Gordon L. Hill
Ontario Bean Producers' Marketing Board
London

Kalmen Kaplansky
Human Rights Centre
University of Ottawa
Ottawa

James F. Kay
Dylex Limited
Toronto

George A. Key
Summerside, P.E.I.

Constantine Passaris
Professor of Economics
University of New Brunswick
Fredericton

Peter P. Podovinikoff
P.M.P. Holdings Limited
Richmond, B.C.

Alastair Ross
Allaro Resources Ltd.
Calgary

Patrick Shimbashi
Diamond-S Produce Ltd.
Taber, Alta.

Susan A. Thompson
The Birt Saddlery Co. (1980) Ltd.
Winnipeg

Membership changes

During the year ending March 31, 1986, several changes in membership took place.

The following members resigned:

David W. Slater, Chairman (October 31, 1985)
Patrick Robert, Director (March 26, 1986)

The terms of the following members expired:

Paul-Émilien Dalpé (October 26, 1985)
Gerald V. Schuler (October 26, 1985)
Douglas P. Thomas (October 26, 1985)
J. Irving Zucker (October 26, 1985)

The following member was reappointed:

Kalmen Kaplansky (June 22, 1985)

The following new members were appointed:

Judith Maxwell, Chairman (November 1, 1985)
Miller H. Ayre (April 29, 1985)
Jalynn H. Bennett (April 29, 1985)
James A. Coombs (April 29, 1985)
Pierre Fortin (April 29, 1985)
Susan A. Thompson (April 29, 1985)
Dian Cohen (July 4, 1985)
George A. Key (July 4, 1985)
Martin I. Chernin (September 26, 1985)
Constantine Passaris (March 27, 1986)

David Slater retired in October 1985, after serving five years as Chairman of the Economic Council. Prior to that appointment, Dr. Slater was acting Chairman (1979-80) and Council director (1978-79). Under his direction, the Council published major reports on the Newfoundland economy; regulation; fiscal federalism; financial markets; technology, trade, and income growth; the Western Canadian economy; and energy.

The Economic Council of Canada

The Economic Council of Canada has three unique qualities: it focuses on medium- and long-term economic research; it issues consensus reports on that research; and it is independent. Created by an Act of Parliament in 1963 to carry out economic research and to provide policy advice, the Council's mandate is to "advise and recommend . . . how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards."

The Council "Board" includes a full-time Chairman, two full-time directors and up to 25 other members representing all regions and sectors of the economy. All are appointed by the federal government. Council members meet four or five times a year to discuss research projects. In deciding what policies to recommend, they attempt to reach a consensus on major Council statements, but individual members may also express their dissent or observations as they see fit. As well, Council members participate with outside experts on Advisory Committees that oversee the activities of the research groups on their projects.

Role

The Economic Council of Canada will have a special role to play in the challenging economic and political environment of the 1980s and 1990s. Its capacity for in-depth research on medium- to long-term issues will be required to help Canadians think through the implications of this environment for the development of economic and social policies. Its independence will enable the Council to stand back from the issues in order to make an objective appraisal of the options open to policy makers in a particular problem area. And, finally, its consensus function, blending the views of its diverse group of members, gives the Council a unique capacity to define the common ground, at a time when Canadians are besieged by opinions from a conflicting array of interest groups. In short, the Council will seek to play a major role in the formation of a national consensus on economic policy, in the belief that achieving broad understanding of key issues is of primary importance if Canadians are to continue to achieve rising standards of living in the years ahead.

Output

The Council's work includes the assessment of medium- and long-term economic prospects for Canada, and the recommendation of government policies to fulfil that potential; an appraisal of how national economic policies are contributing to the development of Canada's regions; and an analysis of how economic growth, technological change, and the international situation affect Canadian employment and income.

It carries out this work in three principal ways – through research, advice, and information.

Research – Original research is the foundation for the advice and recommendations that the Council offers on ways to ensure Canada's economic well-being. Most research projects focus on specific rather than general subjects, with a view to the medium- and long-term growth prospects. Council projects currently under way are discussed on page 8.

Advice – The advisory and consultative responsibilities of the Council are carried out by the Chairman, the two Directors, and the other Board members. Their activities during 1985/86 are outlined on page 12.

Information – One of the Council's prime goals is to inform Canadians about its research findings and to encourage public discussion of economic issues. That involves publishing reports and a quarterly magazine, holding conferences and seminars, arranging media interviews, and giving speeches. The year's activities in this regard are discussed on page 14.

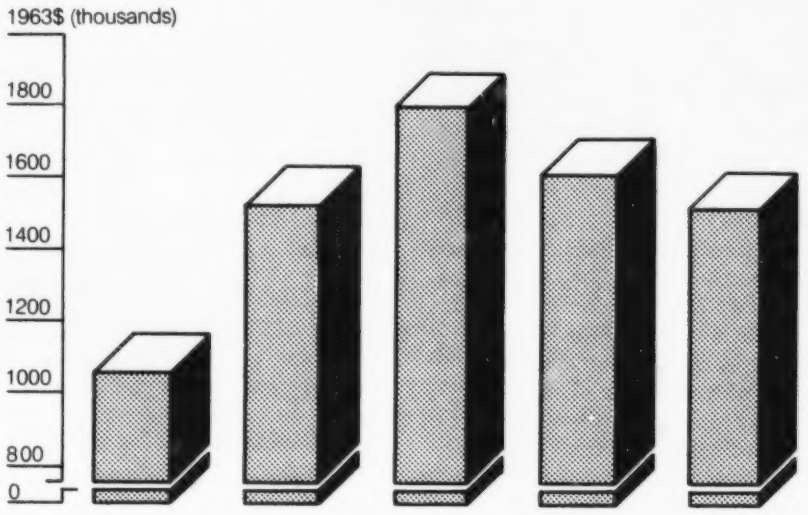
Resources used

The growing pressure for fiscal restraint in the federal government in the 1980s has reduced the real resources available to the Council. Total expenditures on the ongoing program for 1985/86 amounted to approximately $8.5 million. However, as the accompanying charts show, average real expenditures over the past five fiscal years (after adjustment for the effect of infla-

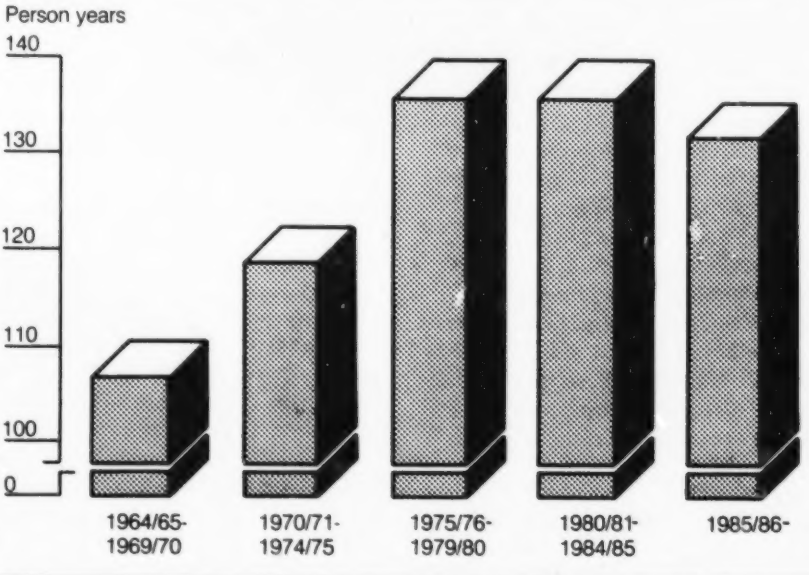
tion) were 4 per cent lower than the average of the previous five fiscal years. Council staff was reduced to 132 employees by the end of fiscal year 1985/86. A further reduction, to 128 employees, will be required at the beginning of fiscal year 1986/87. That level is 7 per cent below the average for the years 1976/77 to 1980/81.

In response, the Council intends to be more cost-effective in the use of its resources and to make fuller use of rapidly advancing technology. It will also draw upon the special talents of part-time Council members and other public-minded experts whose counsel is given without remuneration.

Change in actual expenditures, 1964/65-1985/86



Change in person-years, 1964/65-1985/86



Council members determine which topics will be researched and analysed, although on occasion the Prime Minister refers subjects to the Council for study. Work is then carried out by the various project groups, which are composed of professional staff with training in economics and experience in applied research. Consultants with specialized knowledge may be included in the project groups.

As a rule, projects end with the production of a major report representing the viewpoint of Council members. (In addition, research findings can be published in the form of studies and discussion papers, under the responsibility of the individual authors.) This year, the Council published its Twenty-Second Annual Review of the Canadian economy.

Twenty-Second Annual Review: Strengthening Growth

Investment spending, productivity growth, and Canada's monetary policy will require special attention over the next few years, the Economic Council concluded in its Twenty-Second Annual Review of the economy, ***Strengthening Growth: Options and Constraints***.

The Review found that a better understanding of these three key areas, along with continued vigilance over the government deficit issue, should make it easier for Canadians to choose the most effective means of strengthening growth and reducing unemployment over the medium term.

In the course of its analysis, the Council examined the reasons behind the slowdown in productivity growth and investment spending, and the impact of changes in Canada's current monetary policy. It outlined some of the options for dealing with these issues over the next few years.

Strengthening the bases for growth and job creation should be Canada's first priority.

The Review suggested that positive results for the Canadian economy could be achieved by combining trade expansion within the GATT (General Agreement on Tariffs and Trade) framework with a looser monetary and tighter fiscal policy, and more deficit-reducing activity than in the past. It concluded that Canada now appears to be in a position to achieve more sustained and broadly based improvement in the growth of real income than it experienced over the last decade.

Ongoing research

Twenty-Third Annual Review

The Council's Twenty-Third Annual Review of the Canadian economy, to be published in the fall of 1986, will examine some of the important structural changes presently taking place, both domestically and internationally, that will influence Canada's long-term economic performance. These include the actual and potential widening of international markets and the competitive opportunities thereby created; certain fundamental changes in demographic patterns; and structural adjustment in agriculture.

As well, the medium-term outlook and policy simulations will be developed, using the Council's CANDIDE econometric model. Projections will include both a base case and a performance band, identifying the uncertainties that should be considered in any medium-run planning environment.

Government Enterprises

The role and activities of government enterprises have become the subject of considerable discussion and controversy. The Government Enterprises Group is attempting to provide some much-needed understanding about government corporations as instruments of public policy.

The focus is on government-owned and -controlled entities (generally corporations) engaged in the production of marketable goods and services. Research studies have been undertaken to determine the impact of government ownership and control on various types of economic activity. Case studies have examined government ownership of provincial and municipal utilities, and government involvement in the transport, manufacturing, and resource sectors. More general studies have been carried out to determine the extent of government involvement in business and to probe the legal and institutional framework within which government corporations function.

The research is intended to provide a better understanding of the appropriate policy role of government enterprise and to develop recommendations for administrative and organizational changes that will make government enterprise a more efficient instrument of public policy.

Financial Institutions

The financial sector has undergone some dramatic changes in recent years. Unregulated financial holding companies have emerged, and new financial practices and instruments have been developed. In the process, some institutions have encountered serious financial difficulties.

A number of government and private sector studies of such institutions have already been undertaken. The Council's project will add to the debate by providing a framework within which the key issues can be assessed. It will also review the recommendations that have been made to date and contribute some suggestions of its own.

The project will examine the structure and regulation of financial institutions, focusing on the trade-offs between major policy goals (such as competition and solvency) that governments have to consider in revising financial legislation. It will also consider ways to improve the efficiency with which financial services are provided to Canadians.

The Taxation of Capital Income

In recent years, there has been a significant change in views on the effects of taxation on resource allocation, economic growth, and income distribution. It is in the taxation of capital income that the most dramatic shifts in attitude have occurred.

The Council's study on the taxation of capital income is intended to aid policy makers as they contemplate reforms in the years ahead. Research will focus on several aspects of this subject. It will analyse the potential impact of present and alternative tax treatments of capital income on efficient resource allocation and the distribution of income. Recommendations will be made on ways to improve the taxation of capital income and on the transitional measures needed to implement those recommendations. The study will also specify any additional changes in capital markets and related financial instruments that might be required.

Labour Market Impacts of Technological Change

The project aims to examine patterns of growth and change in

employment, output, and labour requirements in various sectors of the economy, with particular emphasis on the relative performance of the high-tech sectors and their employment consequences. Past trends and future prospects for income distribution will be analysed in the light of shifts in the occupational structure resulting from technological change.

The input-output structure of the Canadian economy will be used to project the possible employment effects of technological change in various industries and occupations. These will be based upon a variety of assumptions about future levels of economic activity, and the pace and nature of technological change. The study will also include a survey of Canadian organizations in order to assess institutional adaptations to technological change. This survey will examine trends and prospects in labour-management relations, patterns of working time, compensation policy, education, training, and the quality of working life.

The implications of technological change for the employment opportunities of women will be examined from the perspective of such issues as the effect of sectoral and occupational shifts on access to employment and the nature of work, and the outlook for the future. The special work-related problems of youth, the aged, and the handicapped in an era of rapid change will also be studied.

Finally, the study will make recommendations for policies on education, the worker training and mobility required by the adjustment process, the institutional adaptations accompanying technological change, and the social measures required to distribute equitably its benefits and costs.

Adjustment and Adaptation

The purpose of this undertaking is to examine how the Canadian economy has adapted to a variety of structural changes, especially in the international trading environment, and to recommend measures that might promote adaptability and thus enhance Canadian economic well-being. Three separate, though related, projects have been established:

Adaptation of Canadian Manufacturing Firms

In light of the forthcoming bilateral trade talks with the United States and the expected multilateral negotiations under the General Agreement on Tariffs and Trade (GATT), the Council will study the adaptation of the manufacturing sector to the lower tariff levels in recent years. This sector was chosen for study because it is where adjustment problems are likely to be the greatest.

The Council project will examine the impact of trade liberalization on the multinational enterprise, as well as the relative importance of trade among firms within an industry versus trade between industries. To determine whether federal policies have helped or hindered industry adjustment and innovation, the research will include detailed case studies of several industries.

Trade Policy Options and Structural Adjustment in Canada

As part of this project, the Council will simulate the effects on the Canadian economy of a free trade agreement with the United States. It will also project the impact of the tariff and non-tariff cuts that are being phased in over the next few years within the GATT framework, as well as the impact of further cuts following the next round of GATT negotiations.

In particular, the project will study the process and speed of industrial adjustment in Canada by estimating the output and employment effects of trade liberalization, both by province and by industrial sector. The data derived from this project will be valuable in the assessment of the kind of industrial adjustment policies that might be needed for the future and will also help Canada to design better bargaining strategies for entering trade negotiations with other countries.

Other Research

Labour market adjustment – Structural changes in the Canadian economy could eliminate jobs and so impose costs on society, in the form of relocation and retraining assistance for displaced workers. The

process whereby these workers adjust to new opportunities has not been fully analysed to date. This research investigates this issue, with the objective of determining whether current labour market measures are effective in facilitating the necessary adjustment at the lowest possible cost.

Social policy and economic adjustment – Two major questions have been raised recently concerning Canada's social security system: the first regarding the possible impact of certain social programs on the economy; and the second concerning the direction that social policy should take in response to the adjustments that lie ahead for the Canadian economy.

In order to study the interaction between social policy and economic activity, the Council is developing a general equilibrium model, drawing on research carried out at Laval University. This work should help policy makers to gain a better understanding of the interaction between federal and provincial social programs with respect to such considerations as the actual net benefits being delivered to Canadians and the impact on incentives to work.

Explorations

Two projects of the Explorations Group were brought to fruition in fiscal year 1985/86: a Colloquium on the Environment (described on page 14) took place in Toronto in December, and a joint research project with the Royal Commission on the Economic Union and Development Prospects for Canada (the Macdonald Commission) was completed and will culminate in Volume 6 of the Commission's Research Studies entitled "Role of Scale in Canada-U.S. Productivity Differences."

In addition, research to assess current financial problems in Canadian agriculture was undertaken, using consultation as well as sectoral financial analysis. This project tried to identify the group of farmers experiencing financial hardship. The findings will be released in 1986.

Preparations were made for the Colloquium on Aging with Limited Health Resources, to be held in Winnipeg in May 1986. The Colloquium addresses the problems and issues associated with Canada's aging population, rising health costs, government deficits, and limited tax revenues. Conference sessions will provide an international perspective of the advantages and disadvantages of different health care systems; deal with aspects of the demand for, and supply of, health care; examine alternative modes of health care delivery; explore the advances of preventive care and new medical technology; indicate where the economic limits intersect with bioethics; and elaborate on Canada's future health care program.

Consultative and advisory activities

The Council spends a great deal of time giving and seeking advice, a key aspect of its work. The three full-time Council members, therefore, meet frequently with political, business, labour, academic, and other groups across the country.

One of the Council's strengths is that the part-time members represent many different sectors of the economy, as well as regions of the country. Members provide practical insight, which contributes to the value of Council documents. They take part in selecting research projects, reviewing research results, and developing policy advice to governments and the public. During the last year, for instance, they participated in the preparation of the Twenty-Second Annual Review, which touched on productivity problems, investment, and interest rates.

As well, part-time Council members actively participated on Advisory Committees for several projects, pertaining to the taxation of corporate income, technological change, and government enterprise.

The new Chairman, Judith Maxwell, is placing special emphasis on the role of these committees. They enable several Council members, together with other experts in a given field, to collaborate closely with the teams of researchers working on a project in order to bring a pragmatic dimension to the economic research and policy analysis process. The number of Advisory Committees ensures that all Council members are implicated in this approach. Greater use of the expertise of Council members will facilitate the consensus-building process when the Council as a whole approves the policy recommendations of a report. The willingness of outside experts from both the private and public sectors to freely contribute their time and practical knowledge to the deliberations of these Advisory Committees will also enhance the effectiveness and prestige of Council reports.

Research groups also consult widely in carrying out their work, talking to experts in business, labour, and government, as well as commissioning studies by outside economic specialists. This last year was no exception. For example, the staff of the Labour and Technology Group have been especially active in making contact with business and labour representatives dealing with the impact of new technologies in the workplace. Keith Newton, the group's director, has been in demand as a resource person for a number of seminars and conferences set up by outside organizations. In addition, leading academics, knowledgeable on tax matters, met with members of the Taxation Group in in-house seminars.

Along with discussions on current research, the Chairman and the two full-time Directors meet frequently with senior representatives of federal and provincial governments and the private sector.

Before ending his term in October, David Slater, the outgoing Chairman, presented his position on free trade to the Special Joint Committee of the Senate and of the House of Commons on Canada's International Relations. There, he stressed that Canada should push hard for lower trade barriers through multilateral talks under the General Agreement on Tariffs and Trade. A free- trade arrangement with the United States should be pursued as well, but only as a second-best solution.

In addition, Dr. Slater appeared before standing committees of the Senate and the House of Commons while they were considering the federal government's Green Paper on Financial Institutions. He also made a submission to the Newfoundland Royal Commission on Employment and Unemployment, updating some of the findings of the Council's 1980 report on the Newfoundland economy.

Peter Cornell, Council Director, presented a brief to the Ontario Select Committee, which was looking into the question of free trade with the United States.

Since becoming Chairman in November, Mrs. Maxwell has had a steady round of meetings with top federal and provincial public servants and political leaders, as well as with representatives of the private sector. She also visited Brussels and Paris, where she sought further insight into international financial and economic problems in discussions with officials of the Commission of the European Economic Community and the Organisation for Economic Co-operation and Development.

While visiting Paris, Brussels, and subsequently London, she met officials of leading research organizations as part of a continuing effort to maintain contact with research groups in Canada and abroad.

In appearances before the House of Commons Standing Committee of Finance, Trade, and Economic Affairs, Mrs. Maxwell discussed the medium-term outlook for the Canadian economy and answered questions ranging from the state of the Canadian dollar to energy prices.

In Canada, the Council keeps in touch regularly with other research bodies through the Economic Research Group, which includes a number of major public and private organizations. Dr. Cornell is now acting as co-ordinator of the Economic Research Group.

As well, there have been consultations and meetings with other federal research groups, such as the Science Council of Canada and the National Research Council.

Dr. Slater, Mrs. Maxwell, and the two Directors – Dr. Cornell and Patrick Robert – also spoke to a variety of groups, ranging from scientific organizations to business conferences.

Information and communications

Information is crucial to any meaningful debate on economic issues and policy options. In recent years, the Council has placed increasing emphasis on this aspect of its mandate, through a variety of initiatives.

Publications

Council reports, reflecting the views of Council members, and Council research studies, which are the responsibility of their authors, are published in both official languages and are available by mail order and in bookstores across the country. Over the past year, the Council has taken steps to ensure that these publications are designed to appeal to a wide general audience. That process entailed the creation of a new category for technical reports, which will also be available in both official languages by mail order and in bookstores.

In addition, the Council publishes discussion papers, which are available free of charge in the language of the author, who is responsible for the views expressed therein.

The Council also publishes a free quarterly magazine, *Au Courant*, which reaches a varied audience of over 40,000 readers. *Au Courant* reports on current Council research work, mixing interviews with articles on recent publications. In May of 1985, *Au Courant* received two major awards from the Information Services Institute, an organization for federal government and freelance information specialists: an award of merit for Volume 5 (the four issues published in 1984-85); and an award of excellence (writing/editing) for a feature article on energy, which appeared in Volume 5, No. 3.

Public Relations

The Chairman and the two full-time Directors promote Council reports and recommendations through speeches and meetings with representatives from both the public and private sectors. In addition, the Council's media and public relations specialists are in constant contact with colleagues and institutions across the country, in order to draw attention to the Council as a source of up-to-date information on economic issues.

Conferences and Seminars

The Council holds seminars on a variety of research-related topics at regular intervals. Experts in various fields, from government, universities, and the private sector, frequently present their views at these seminars. In addition, the Council periodically sponsors, or is a contributor to, conferences pertaining to its research expertise.

Colloquium on the Environment

In December 1985, the Economic Council held a two-day Colloquium on the Environment in Toronto. The Colloquium was organized by the Council's Explorations Group as part of its ongoing research into several areas, including the economics of environmental protection. More than 100 experts from diverse backgrounds in scientific research, economics, environmental management, public administration, and industry were invited to take part in the proceedings. Speakers and discussants examined the current state of the environment and recent efforts to clean up the environmental damage of the 1950s and 1960s; the costs and benefits of pollution control; the need for proper resource management and better toxic waste management; and the effects of such major environmental changes as a global warming of the environment. Papers presented at the Colloquium will be published in a single volume later in 1986.

Administrative and technical services

General Administration

The General Administration Group provides four principal types of service – administrative, personnel, financial, and library – all designed to support the work of the research and other service groups. While each of these groups has control over the resources required to fulfil its responsibility, the overall financial, personnel, property, and records administration rests with General Administration.

General Administration is required to ensure that the Council's administrative procedures comply with government regulations and directives; to provide public authorities with reports on the effectiveness and efficiency of the Council's use of public funds and other resources; and to develop overall plans and strategies with respect to the expected output performance and resource input requirements over the short-to-medium term. In each of these specified tasks, General Administration requires information from other groups, together with direction and final approval from the Council's senior management.

The Council Library

The Council Library exists primarily for the use of the Council staff but is also open to the public (under the terms of the Access to Information Act). It contains some 30,000 books, documents, reference works, and periodicals relating to economics, finance, social sciences, and statistics. The Library is represented on the Council of Federal Libraries and on the Federal Micrographic Council, as well as being a member of the Canadian Library Association and the Special Library Association. It is also a depository library for certain federal government publications.

The Library has undergone a year of general reorganization and updating of its collections in order to make them more easily accessible and more responsive to the needs of Council clientele. A major achievement in this regard was the installation of the datasystem DIALOG for on-line reference use. In addition, an automation system will be installed in the new fiscal year; the first function of which will be to automate the cataloguing/technical-processing area.

Data Processing

The Data Processing Group is responsible for data acquisition and manipulation, scientific and administrative programming, and computing services in support of Council research groups.

Computing services continue to be provided by the private-sector service bureau industry, supplemented by personal computers. With professional statistical and data manipulation software now available for these personal computers, the in-house "economists' workstation" is becoming a reality. In addition to the Taxation Group, the Financial Institutions and Social Policy Groups are using such technology for simple modeling and statistical analysis.

Fiscal year 1986/87 will see the introduction of a small personal computer-based management information system. The latter will help Council managers in monitoring the progress of research projects and in co-ordinating human resources. Efforts will also be made to further automate research support activities, such as records management and the library.

Senior management

Chairman
Judith Maxwell

Council Directors
Peter M. Cornell
Patrick Robert

Council Secretary
W. E. Haviland

Group Directors
Twenty-Third Annual Review
R. A. Jenness

CANDIDE and Twenty-Second Annual Review
R. S. Preston

Government Enterprises
R. Hirshhorn

The Taxation of Capital Income
D. O. Sewell

Labour Market Impacts of Technological Change
K. Newton

Explorations
R. A. Jenness

Financial Institutions
A. Ryba

Adjustment and Adaptation
P. Gorecki
S. Magun

Information
J. Fortin

General Administration
D. M. Paproski

Data Processing
A. Bourdon

AUDITOR GENERAL OF CANADA VÉRIFICATEUR GÉNÉRAL DU CANADA

AUDITOR'S REPORT

To the Economic Council of Canada
and
The Right Honourable Martin Brian Mulroney, P.C., M.P.
Prime Minister of Canada

I have examined the statement of operations of the Economic Council of Canada for the year ended March 31, 1986. My examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as I considered necessary in the circumstances.

In my opinion, this financial statement presents fairly the expenditure and revenue of the Council for the year ended March 31, 1986, in accordance with the accounting policies set out in Note 2 to the financial statement applied on a basis consistent with that of the preceding year.

D.L. Meyers, F.C.A.
Deputy Auditor General
for the Auditor General of Canada

Ottawa, Canada
May 30, 1986

Statement of Operations
for the year ended March 31, 1986

Expenditure	**1986**	**1985**
Operations		
Salaries and employee benefits	$ 5,432,456	$ 5,217,318
Accommodation	833,262	684,880
Professional and special services	744,552	930,346
Publicity, publication of reports and studies	232,420	368,104
Communications	220,757	215,509
Office stationery and supplies	174,974	161,464
Travel and removal	126,898	122,442
Repair of office furniture and equipment	50,014	39,879
Rental of equipment	44,932	42,260
Office furniture and equipment	40,954	105,638
Renovations	33,993	44,349
Miscellaneous	8,829	16,564
	7,944,041	7,548,753
Administration		
Salaries and employee benefits	727,635	623,869
Executive Council members	353,727	253,472
Employee termination benefits	281,044	27,097
Professional and special services	120,868	150,648
Travel	93,090	63,880
	1,576,364	1,118,966
	9,520,405	9,067,719
Revenue		
Refund of previous years' expenditure	20,138	328
Miscellaneous non-tax revenue	45	—
	20,183	328
Net cost of operations	**$ 9,500,222**	**$ 9,067,391**
Reconciliation to use of appropriations:		
Net cost of operations	$ 9,500,222	$ 9,067,391
Add: revenue credited to non-tax revenue	20,183	328
Less: services provided without charge by Government departments	935,638	812,724
Use of appropriations (Note 3)	**$ 8,584,767**	**$ 8,254,995**

The accompanying notes are an integral part of this statement.

Approved by the Council:

Judith Maxwell

Chairman

Director, General Administration

Notes to Statement of Operations
March 31, 1986

1. Authority and objective

The Council was established in 1963 by the Economic Council of Canada Act and is a departmental corporation named in Schedule B to the Financial Administration Act.

The objective of the Council is to advise and recommend to the Prime Minister how Canada can achieve the highest possible levels of employment and efficient production in order that the country may enjoy a high and consistent rate of economic growth and that all Canadians may share in rising living standards.

The Council's operating expenditures are funded by a budgetary lapsing authority. Employee benefits are authorized by statutory authorities.

2. Significant accounting policies

The statement of operations has been prepared using the following accounting policies:

(a) Expenditure recognition
All expenditure is recorded on the accrual basis, in accordance with the Government's PAYE accounting policy, with the exception of termination benefits and vacation pay which are recorded on the cash basis.

(b) Capital purchases
Acquisitions of capital assets are charged to operating expenditure in the year of purchase.

(c) Estimates of amounts for services provided without charge from Government departments are included in expenditures.

(d) Refunds of previous years' expenditure
Refunds of previous years' expenditure are recorded as revenue when received and are not deducted from expenditure.

3. Parliamentary appropriations

	1986	1985
Privy Council		
Vote 20	$ 8,062,499	$ 7,645,000
Lapsed	344,732	197,005
	7,717,767	7,447,995
Statutory contributions to employee benefit plans	867,000	807,000
Total use of appropriations	$ 8,584,767	$ 8,254,995

Publications of the Economic Council of Canada, 1985/86

Annual Report, 1984/85

David W. Slater (EC1/1985E – available free from the Economic Council)

Annual Review

Twenty-Second Annual Review: *Strengthening Growth*, 1985 (EC21-1/1985E; $5.95 in Canada and $7.15 in other countries)

Research Studies

Structural Change and Industrial Policy: The Redeployment of Canadian Manufacturing, 1960-80

R. A. Matthews, with the collaboration of Donald J. McCulla, 1985 (EC22-127/1985E; $6.95 in Canada and $8.35 in other countries)

The Potential Supply of Crude Oil and Natural Gas Reserves in the Alberta Basin

R. S. Uhler, with the collaboration of P. C. Eglington, 1986 (EC22-128/1986E; $7.95 in Canada and $9.55 in other countries)

Women Reentering the Labour Force and Training Programs: Evidence from Canada

Daniel Boothby, 1986 (EC22-129/1986E; $5.95 in Canada and $7.15 in other countries)

Periodicals

Au Courant, Vol. 6, Nos. 1, 2, 3, and 4

(available free from the Economic Council)

Reprints

Newfoundland: From Dependency to Self-Reliance, 1980

(EC22-85/1980E; $10.95 in Canada and $13.15 in other countries)

Connections: An Energy Strategy for the Future, 1985

(EC22-124/1985E; $9.95 in Canada and $11.95 in other countries)

Living Together: A Study of Regional Disparities, 1977

(EC22-54/1977E; $7.50 in Canada and $9.00 in other countries)

Responsible Regulation: An Interim Report, 1979

(EC22-70/1979E; $7.25 in Canada and $8.70 in other countries)

In Short Supply: Jobs and Skills in the 1980s, 1982

(EC22-108/1982E; $7.95 in Canada and $9.55 in other countries)

Looking Outward: A New Trade Strategy for Canada, 1975

(EC22-27/1975E; $8.95 in Canada and $10.75 in other countries)

The Choice of Governing Instrument

M. J. Trebilcock, D. G. Hartle, R. S. Prichard, and D. N. Dewees, 1982 (EC22-101/1982E; $8.95 in Canada and $10.75 in other countries)

How to order

Both the Council reports and research studies listed above are available across Canada from bookstores where government publications are sold. (A list is available from the Council on request.) These publications can also be ordered by mail from the Canadian Government Publishing Centre, Supply and Services Canada, Ottawa, Canada, K1A 0S9. (Please be sure to include a cheque or money order made payable to the Receiver General for Canada.)

For further information

If you would like further information about the work or the publications of the Economic Council, please write to: Information Division, Economic Council of Canada, P.O. Box 527, Ottawa, Ontario, K1P 5V6.

C O R R I G E N D U M

a) On page 18, the first subtotal appearing under the column for the year 1985 should read 7,948,753 instead of 7,548,753.

b) Due to revisions made in the Auditor General of Canada's report subsequent to the printing of this Report, the information contained on page 19, number 3 of the "Notes to Statement of Operations" should read as follows:

3. Parliamentary appropriations

	1986	1985
Privy Council Vote 20	$7,859,000	$7,645,000
Supplemented by Treasury Board Vote 5	268,899	--
	8,127,899	7,645,000
Lapsed	410,132	197,005
	7,717,767	7,447,995
Statutory contributions to employee benefit plans	867,000	807,000
Total use of appropriations	$8,584,767	$8,254,995

14 August 1986